

FEDERAL COMMISSION
DENOUNCES NEW HAVENInterstate Commerce Board De-
clares Road's Financial Man-
agement "Wasteful."

IN OPEN VIOLATION OF LAW

Report Assets Company Has
Tried to Control New England
Transportation and Dis-
regarded Statutes.Washington, July 9.—Financial opera-
tions of the New York, New Haven &
Hartford Railroad, its ownership of trol-

ley lines and its control of allied New England railroads are condemned in unmeasured terms by the Interstate Commerce Commission in the report of its investigation made public here to-day.

The commission's conclusions are: That the "wasteful" financial management has been "wasteful in the extreme," and had the New Haven confined itself to actual railroad activities under the same conditions that prevailed in other respects "it could have paid a dividend of 8 per cent for the fiscal year 1912 and carried to surplus amount \$1,794,000 instead of showing a deficit of \$320,000."

That the New Haven's agreement with the Boston & Maine is "a violation of the spirit of the statute against the restraint of competition and should be cancelled."

"In our opinion," says the commission, "this line should be kept entirely free from New Haven control."

That the New Haven should divest itself of its trolley lines, not because the present ownership is in violation of law, but because such ownership might be used to prevent the building of competing lines in the future.

Merger Means Monopoly.

That the Boston & Maine's merger with the New Haven, if permitted to stand, will result in "an almost exclusive monopoly of transportation facilities by railroad in the greater part of New England."

That passenger train service, without considering safety of operation, on the New Haven is distinctly better than any other line entering New York and that of the Boston & Maine equally as good.

Both roads, however, are criticised adversely for lack of steel cars.

That the freight service of the Boston & Maine "is much less reliable than that of either the Pennsylvania or the Baltimore & Ohio, while that of the New Haven is slightly inferior to the Pennsylvania, but about on a par with the Baltimore & Ohio."

That passenger fares in New England have been more favorable to the local traveling public than in any other portion of the United States.

That any betterment of railroad conditions in New England must begin with the assurance that the New Haven management will act not only prudently, but, above all, within the letter and the spirit of the law.

At the Base of Regulation.

No order was made by the commission, but in its opinion the following propositions which have national application to all railroads lie at the foundation of adequate railroad regulation:

"Every interstate railroad should be prohibited from expending money or incurring liabilities or acquiring property not in the operation of its railroad or in the legitimate improvement, extension or development of that railroad."

"No interstate railroad should be permitted to lease or purchase any other railroad, nor to acquire the stocks or securities of any other railroads, nor to guarantee the same, directly or indirectly, without the approval of the federal government."

"No stocks or bonds should be issued by an interstate railroad except for the purposes sanctioned in the two preceding paragraphs, and none should be issued without the approval of the federal government."

Would Leave Matter to Congress.

Commissioners Clements and Marbo submitted a concurring opinion in which they "agree heartily with the report," but make their position clear as to some of the issues mentioned. Concerning the merger of the New Haven and the Boston & Maine they assert:

"This is a phase of the subject that should be left to the Congress, just as the issues under the anti-trust law have been left to the courts. If it were properly to be considered here, however, we would give weight to the suggestion that the merger has so overloaded the executive heads of the entire aggregation as to impair not only correct and economical financial administration but also efficiency and safety of operation. The Boston & Maine and the New Haven are shown by the report to be separable organically. They are not one system, but two systems under one management. Therefore, closer superintendence, with corresponding gains in efficiency and safety, might be expected from a dissolution of the merger."

"No competition between carriers is unimportant. Moreover, any suppression of competition involves larger issues, which may be discussed by those who are charged with the duty of legislation."

"The proposed continuation of the inquiry into the matter of increases in rates ought not to be held in advance of the posting of such rates for the information of the shippers who must pay them. The report strongly suggests that increased net income for the Boston & Maine should be secured by a reform in expenditures rather than by an increase of rates."

T. H. Gregory and Jesse C. Adkins, in charge of the Department of Justice investigation of the New England railroad situation to determine whether the Sherman anti-trust law has been violated, have begun an analysis of the report.

The report is divided under four general heads—"Rates," "Finances," "Service," and "The Remedies." Commissioner Prouty, who has devoted much of his time during the last year to the inquiry, discusses exhaustively each phase. He indicates clearly that the investigation was "not into the solvency or insolvency of the New Haven Company," but into the character of its financial operations.

Growth of Road's Capital

It is shown by the report that in 1903 the total capitalization of the New Haven was \$50,000,000, and its operating mileage, 2,040 miles. In 1912 its capitalization was \$417,000,000, an increase of \$367,000,000; while its operating mileage was increased only 50 miles. In this period of nine years, the New Haven Company acquired actual ownership of about 800 miles of road which it previously had operated, expending approximately \$40,000,000 in obtaining the additional mileage. It expended during the nine years \$26,000,000 for betterments and equipment, making a total of \$136,000,000 devoted to the road property. "This would leave," the report points out, "the sum of \$281,000,000 in nine years had been expended in operations outside the railroad sphere." To the methods of investing that sum the report devotes elaborate attention. Various transactions are taken up, one by one, and analyzed.

In its acquisition of the Rhode Island trolley lines the methods pursued, Commissioner Prouty suggests, "afford an instructive object lesson in the realm of what is sometimes termed 'high finance'."

The Commissioner points out that in this transaction "the New Haven gave \$13,500,000 for nothing." The trolleys cost the New Haven to date about \$24,000,000, and have been valued at something more than one-quarter of that amount.

The New York, Westchester & Boston Railway, the report shows, cost the New Haven about \$50,000,000, \$12,000,000 in excess of the value of the property on the New Haven's own showing. "So far as the

records go, this money has vanished into thin air," the report adds.

Ventures Prosecuted at a Loss.

Acquisition by the New Haven of trolley lines in Massachusetts is reviewed at length, and the conclusion is reached that the New Haven company gave away to J. L. Billard and his associates about \$2,000,000 of the property of the New Haven.

The transactions of President Mellen in giving his personal notes to his own company for stock are discussed at length by Commissioner Prouty. On transactions in New Haven stock bought with such notes there were profits of \$102,000, but the New Haven's books do not show to what use the money had been put. The report adds:

"His statement was that the amount had been used in campaign expenditures during the summer and fall of 1912, that this had been done by direction of his directors and that he had subsequently ratified his act. These campaign contributions call for no comment from us. The act of the New Haven was not peculiar in which this matter was handled between an officer of this company and its directors. The special account shows a payment to Mr. Mellen of \$50,000 in cash, which he passed over to the Republican National Campaign Committee. It shows a second payment to Mr. Buckland, now the vice-president of the company, of \$5,000, which was turned over to the Republican State Committee of Rhode Island."

The investigation disclosed that such stock transactions extended over a considerable period, and from time to time Mellen received large sums for various purposes unstated on the books of the company. He explained that the amounts were for campaign contributions and for other expenses, including one item of \$30,000 spent in connection with "certain leases of dock property in New York City." Commissioner Prouty says the commission doubts the propriety of this laxity in the keeping of accounts between Mr. Mellen and his company.

Wasteful Operations.

The marine equipment of the New Haven was manipulated, according to the report, in a way to defy analysis, and it is added:

"Our general conclusion is that the outside financial operations of the New Haven company for the last nine years have been wasteful in the extreme and that the methods by which those operations have been conducted are unnecessarily involved and complex. The reasons for this are as apparent as the fact itself."

The present management of that company started out with the purpose of controlling the transportation facilities of New England. In the accomplishment of this purpose it bought what must be had and paid what must be paid. To this purpose and its attempted execution can be traced every one of these financial misfortunes and derelictions.

"It seems proper to add that while the financial operations of this company have resulted in heavy losses there is nothing to indicate that its solvency has been impaired. The outside properties of the New Haven have been acquired at extravagant prices. They are for the greater part of substantial value, and in many instances are a kind of property the value of which should improve. The financial condition of the company calls for careful consideration and prudent action, but gives no occasion for hysteria."

Boston & Maine Line.

Incidental to the acquisition of the control of the Boston & Maine by the New Haven, the report discusses the financial condition of the former. Criticism is made of the methods of leasing other lines practised by the Boston & Maine, the amounts being flat sums each year without reference to the ability of the lines leased to make the necessary returns. Such a method of building up a railroad system is denounced by the commission as "inherently vicious."

In discussing the remedy to be applied to the general railroad situation Commissioner Prouty says:

"What is needed first of all to improve the railroad situation in New England is rest and opportunity for constructive work. There is much truth in the claim of these carriers that they have been so occupied with investigations and so criticized by the public that no fair opportunity has been given for the operation of their railroad properties. No railroad management can succeed without the support of the public which it serves. It must not be forgotten that the railroad is a public servant in fact as well as in name, and that the service which it renders depends largely upon the treatment which it receives from its master."

Must Obey the Law.

"But upon what terms is peace to be secured? In the past the New Haven company, which has now become the dominant factor and which is mainly to be considered, has proceeded in open violation of some laws and in disregard of the spirit, if not the letter, of others. This course upon the part of that company is primarily responsible for this unfortunate agitation. That agitation cannot be stopped, and ought not to stop, until its cause is removed. Any attempt of railroad conditions in New England must begin with the assurance that the New Haven management will act not only prudently, but, above all, within the letter and the spirit of the law."

The Panama Canal act of 1911 requires the railroads to relinquish ownership or control of steamship lines competing with their rail lines. The report suggests that this law disposes of the matter of the New Haven's water lines.

No Opinion on Merger.

The so-called merger between the New Haven and the Boston & Maine is discussed at length, but no opinion is given. The report observes that Boston has more at stake than all the rest of New England, both as a port and as a market, and that whether Boston would be injured by perpetuation of the merger would depend largely upon whether the corporation controlling the railroads of New England was dominated by Boston or New York. It adds:

"If the New Haven company is permitted to remain in control of the Boston & Maine system, there will exist an almost exclusive monopoly of the transportation facilities by railroad in the greater part of New England. It would be difficult to perfectly apparent that if this monopoly is suffered to exist there must be somewhere a power of regulation which is co-extensive with the monopoly. In other words, the federal government must assume jurisdiction over the maintenance and operation of these railroads in so far as may be necessary to secure to the public a proper service. This investigation emphasizes the fact that service is often of greater importance than rate itself."

As criticism of both freight and passenger service developed, both were considered. To both the New Haven and the Boston & Maine the report gives credit for promptitude and general excellence in their passenger service, although it is distinctly noted that "safety of operation has not been considered."

As to passenger fares, it is pointed out

that "the published schedule fare in New England is somewhat higher than in other Trunk Line or Central Freight Association territory," although many conspicuous exceptions to this rule are noted. It is shown that practically all of the passenger business of the New England roads is done under the mileage system of making rates "so that the actual fare paid by the people of New England for their local transportation by rail is two cents a mile. To-day a passenger can purchase a 1,000-mile book, good to bearer and good until used, upon almost the entire railroad mileage of New England. In no other section of the country does an equal population enjoy this privilege."

COMMUTERS MAY APPEAL

Reduction Not Regarded Favorably—To Form Organization.

Washington, July 9.—The Interstate Commerce Commission decided to-day that the existing scale of commutation passenger fares on the New York, New Haven & Hartford Railroad from points in Connecticut to New York City was not unreasonable, generally, although certain stations were found to be unjustly discriminated against.

The Commission held it to be discriminatory against Connecticut commuters for the New Haven to refuse to sell them reduced rate fifty trip family tickets, while such tickets are sold by the road between New York City and all New York state points.

The road is expected to conform with the conclusions of the Commission without an order, although one will be issued if necessary.

The partial victory of the New Haven read commuters for the reduction of monthly rates was not regarded favorably yesterday by Charles Estes Dana, of No. 40 Wall street, who, with Joseph S. Wood, of Mount Vernon, led the "commuters' war" in the summer of 1910.

"The ruling of the Interstate Commerce Commission," said Mr. Dana, "apparently has split the difference between the railroad's scale rate and the rates now in effect, as far as the 'twenty-five to thirty-five' mile zone is concerned. This zone extends from the state line near Port Chester to just beyond Stamford. The rest of the commuting districts as far as Bridgeport, which also are heavily affected by the increase, get no relief."

At the time the protest was made to the Interstate Commerce Commission against the increase of rates, the Connecticut Commuters' League filed a brief, showing that the increases amounted to from 29 to 30 per cent over the old rates. On the declaration of the commission that at Bridgeport, which was taken as a base, the rate should not be more than \$5, Mr. Bates quoted rates for other places on the same standard. "Greenwich," he said, "would be entitled to \$16, Sound Beach at \$10, Stamford at \$11 and Glenbrook at \$12."

Through the efforts of Bradley Stoughton, of New Canaan, Conn., a meeting is to be held to-day at the Engineering Building, No. 29 West Thirty-ninth street, to form a permanent commuters' organization. It is thought that the question of an appeal from the commission's ruling will be discussed.

MELLEN QUILTS CENTRAL

Morris McDonald Succeeds Him as President of Maine Road.

Portland, Me., July 9.—Charles S. Mellen resigned the presidency of the Maine Central Railroad at the monthly meeting of the directors to-day. Morris McDonald, vice-president and general manager, was elected to succeed him.

George S. Hobbs, second vice-president and controller, was appointed general manager. The office of vice-president was not filled, and that of second vice-president was abolished. Arthur P. Foss was made controller.

The vacancy in the board of directors caused by the death of J. Pierpont Morgan, was filled by the election of Alvah W. Sullivan, of Franklin, N. H.

THINK MELLEN WILL GO

Wall Street Men Predict His Retirement from New Haven.

The severe arraignment of the New Haven Railroad management in the report of the Interstate Commerce Commission was regarded in railroad and banking circles yesterday as foreshadowing the complete retirement of President Mellen from the New England railway situation. It was freely predicted that the present New Haven policy could not long continue in direct opposition to the findings of the report, and that which is sweeping the New England States.

Just how long Mr. Mellen will retain the presidency of the New Haven, it was predicted, would be determined by the management of the Boston & Maine, was the chief topic of discussion. The consensus of opinion was that he should resign at the earliest opportunity because of the belief that he would not change the present policy of the road. Others who thought that he had realized the mistakes he had made, if he had gone too far in antagonizing the public to restore harmony.

The old Wall Street rumor that in the event of Mellen's early resignation from the New Haven Howard Elliott, president of the Boston & Maine, would be chosen as his successor was revived. Mr. Elliott, however, stated that he had no intention of leaving the Boston & Maine, and where such a rumor had ever been brought to his personal attention.

When asked if it were offered him the New Haven presidency if it were offered him that cannot be answered. "I don't know what I would do."

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